AMERICAN VANADIUM CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

AS AT AND FOR THE THREE MONTHS ENDED MARCH 31, 2012

Management's Comments on Unaudited Financial Statements

The accompanying unaudited condensed consolidated interim financial statements of American Vanadium Corp. (the "Company") as at and for the three months ended March 31, 2012 have been prepared by management and approved by the Board of Directors of the Company. These financial statements have not been reviewed by the Company's external auditors.

AMERICAN VANADIUM CORP.
CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS (UNAUDITED)
IN CANADIAN DOLLARS

	March 31	December 31
	2012	2011
	$	$
ASSETS		
Current assets		
Cash	**2,584,829**	4,245,438
Amounts receivable	**33,924**	128,656
Income tax receivable	**102,302**	267,971
Prepaid expenses	**103,427**	101,695
Deferred engineering management expense and deposit (Note 5)	**1,438,192**	1,079,390
	4,262,674	5,823,150
Equipment (Note 4)	**44,870**	49,455
Reclamation deposit	**84,076**	85,720
Mineral properties (Note 5)	**1,668,477**	1,535,943
	6,060,097	7,494,268
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**477,987**	784,883
Shareholders' equity		
Share capital (Note 6)	**14,058,111**	14,058,111
Contributed surplus	**2,434,538**	2,339,450
Deficit	**(10,910,539)**	(9,688,176)
	5,582,110	6,709,385
	6,060,097	7,494,268

Basis of presentation and continuance of operations (Note 2)

Commitments and contingencies (Note 12)

Events after the reporting period (Note 13)

On behalf of the Board:

Signed: "William Radvak" Director

Signed: "Brian E. Bayley" Director

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

AMERICAN VANADIUM CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)
IN CANADIAN DOLLARS

	Three Months Ended March 31 2012	Three Months Ended February 28 2011
	$	$
		Note 2
Exploration and evaluation expenses (Note 5)	**507,985**	1,303,304
General and administrative expenses:		
Salaries and benefits (Note 7)	**219,768**	90,090
Consulting (Note 7)	**122,775**	57,748
Stock-based compensation	**95,088**	222,167
Travel	**70,526**	20,131
Investor relations and shareholder information	**54,524**	62,586
Office facilities and administrative services (Note 7)	**47,640**	27,982
Transfer agent, listing and filing fees	**26,939**	12,425
Office and sundry	**21,381**	13,311
Audit and legal	**9,997**	42,322
Amortization	**4,585**	1,888
	673,223	550,650
Loss before other items	**(1,181,208)**	(1,853,954)
Other items:		
Foreign exchange loss	**(45,383)**	(88,619)
Interest income	**4,228**	1,677
	(41,155)	(86,942)
Loss before income taxes	**(1,222,363)**	(1,940,896)
Current income tax recovery	**-**	175,306
Net comprehensive loss	**(1,222,363)**	(1,765,590)
Basic and diluted loss per share (Note 11)	**(0.04)**	(0.09)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

AMERICAN VANADIUM CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
IN CANADIAN DOLLARS

	Share Capital	**Contributed Surplus**	**Deficit**	**Total**
	$	**$**	**$**	**$**
Balance, December 1, 2010 (Note 2)	6,162,761	816,581	(3,032,141)	3,947,201
Exercise of warrants	13,333	-	-	13,333
Exercise of stock options	173,828	(74,078)	-	99,750
Stock-based compensation	-	222,167	-	222,167
Net comprehensive loss for the period	-	-	(1,765,590)	(1,765,590)
Balance, February 28, 2011 (Note 2)	6,349,922	964,670	(4,797,731)	2,516,861
Private placements, net of share issuance costs	6,919,555	651,526	-	7,571,081
Exercise of warrants	466,666	-	-	466,666
Exercise of stock options	141,968	(58,116)	-	83,852
Shares issued for water rights (Note 5)	67,500	-	-	67,500
Shares issued for claims acquisition (Note 5)	33,750	-	-	33,750
Performance shares (Note 6)	78,750	-	-	78,750
Stock-based compensation	-	781,370	-	781,370
Net comprehensive loss for the period	-	-	(4,890,445)	(4,890,445)
Balance, December 31, 2011	14,058,111	2,339,450	(9,688,176)	6,709,385
Stock-based compensation	-	95,088	-	95,088
Net comprehensive loss for the period	-	-	(1,222,363)	(1,222,363)
Balance, March 31, 2012	**14,058,111**	**2,434,538**	**(10,910,539)**	**5,582,110**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

AMERICAN VANADIUM CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)
IN CANADIAN DOLLARS

	Three Months Ended March 31	Three Months Ended February 28
	2012	2011
	$	$
		Note 2
CASH FLOWS FROM OPERATING ACTIVITIES		
Net comprehensive loss	**(1,222,363)**	(1,765,590)
Items not involving cash:		
Stock-based compensation	**95,088**	222,167
Amortization	**4,585**	1,888
Unrealized foreign exchange loss	**2,499**	3,382
Changes in non-cash working capital balances:		
Accounts payable and accrued liabilities	**(457,613)**	591,607
Deferred engineering management expense and deposit	**(208,085)**	-
Income tax receivable	**165,669**	(165,138)
Amounts receivable	**94,732**	(11,190)
Prepaid expenses	**(2,587)**	(4,272)
Non-operating (income) expenses:		
Interest income	**(4,228)**	(1,677)
Net cash used in operating activities	**(1,532,303)**	(1,128,823)
CASH FLOWS FROM INVESTING ACTIVITIES		
Mineral property acquisition costs	**(132,534)**	(50,076)
Interest income	**4,228**	1,677
Purchase of equipment	**-**	(946)
Increase in reclamation deposit	**-**	(418)
Net cash (used in) provided by investing activities	**(128,306)**	(49,763)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares, net of issuance costs	**-**	113,085
Deferred financing costs	**-**	(117,845)
Net cash provided by financing activities	**-**	(4,760)
Change in cash for the period	**(1,660,609)**	(1,183,346)
Cash, beginning of period	**4,245,438**	3,136,748
Cash, end of period	**2,584,829**	1,953,402

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

1. NATURE OF OPERATIONS

American Vanadium Corp. (the "Company"), incorporated under the *Canada Business Corporations Act*, is engaged in the acquisition and exploration of mineral properties, with a strategic focus on vanadium properties in the State of Nevada. The Company is currently exploring its Gibellini property and has completed a feasibility study on the property. Pending, among other factors, successful supply arrangements, the availability of sufficient financing, regulatory approval, all of which are uncertain, the Company plans to develop and operate a mine in the future.

The Company's corporate head office is located at Suite #1028, 550 Burrard Street, Vancouver, British Columbia.

The Company's shares trade on the TSX-Venture Exchange (the "Exchange") under the symbol "AVC" and are quoted on the OTCQX under the symbol "AVCVF".

2. BASIS OF PRESENTATION AND CONTINUANCE OF OPERATIONS

Change in financial year

In 2011 the Company changed its financial year-end from February 28 to December 31 in order to align its financial reporting with its operational and budgeting cycles. The Company's most recent annual fiscal period was for the ten months ended December 31, 2011, while the current reporting period is for the three months ended March 31, 2012 with a comparative period for the three months ended February 28, 2011.

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB"). These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"), and they follow the same accounting policies and methods of application as – and should be read in conjunction with – the Company's audited annual consolidated financial statements for the ten months ended December 31, 2011.

These consolidated financial statements were authorized by the Board of Directors on May 23, 2012.

Going concern

These consolidated financial statements have been prepared on the assumption that the Company will continue on a going concern basis. The Company has generally incurred net losses and negative operating cash flows since its inception, and the ability of the Company to continue as a going concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing which would assure continuation of the Company's operations and exploration programs. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing.

There can be no assurance that the Company will be able to develop profitable operations or continue to raise additional funds, in which case the Company may be unable to meet its financial obligations. Should the Company be unable to generate funds from its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the balance sheets. The financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

The Company's ability to raise additional funds is dependent on favourable conditions in equity and alternative investment markets, which are volatile and subject to significant uncertainty. The Company will continue to identify alternative sources of financing, but anticipates reliance on equity markets in the near term.

As at March 31, 2012, the Company maintained a working capital surplus of $3,784,687 and had $5,582,110 in shareholders' equity.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These condensed consolidated interim financial statements include the assets, liabilities, income and expenses of the Company and its wholly-owned U.S. subsidiary, American Vanadium US Inc. All intercompany transactions and balances have been eliminated on consolidation. Unless otherwise indicated, all amounts are reported in Canadian dollars, which is the functional currency of the Company and American Vanadium US Inc.

Basis of measurement

The balances in these consolidated financial statements have been measured on an historical cost basis, except for cash and short-term investments which are measured at fair value.

Application of new and revised International Financial Reporting Standards

i. IAS 12 Income Taxes ("IAS 12")

Effective January 1, 2012, the Company adopted an amendment to IAS 12 that removed certain subjectivity in measuring deferred tax assets and liabilities arising on investment property measured at fair value. There was no impact on the Corporation's financial statements as a result of the application of this amended standard.

ii. IFRS 7 Financial Instruments: Disclosures ("IFRS 7")

Effective January 1, 2012, the Company adopted an amendment to IFRS 7 that requires additional disclosure on the transfer of financial assets by the Company, including the possible effects of any residual risks that the Company retains. There was no impact on the Company's financial statements as a result of the application of this amended standard.

Significant accounting policies, estimates and judgments

Notwithstanding the application of new and revised International Financial Reporting Standards previously discussed, these condensed consolidated interim financial statements have been prepared using the same accounting policies and are subject to the same estimates, judgments and measurement uncertainties as those described in Note 3 of its audited consolidated financial statements as at and for the ten months ended December 31, 2011.

Recent accounting pronouncements issued but not yet adopted

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective for the year beginning January 1, 2012, and has determined that the following may have an impact on its consolidated financial statements:

i. IAS 1 Presentation of Financial Statements (“IAS 1”)

IAS 1 was amended in June 2011 to provide guidance on the presentation of items contained in other comprehensive income (“OCI”) and their classification within OCI. The amendments are to be applied for annual periods beginning on or after July 1, 2012, with earlier adoption permitted. The amendments are not expected to have a significant impact on the Company’s consolidated financial statements.

ii. IFRS 7 Financial Instruments: Disclosures (“IFRS 7”)

IFRS 7 was amended in December 2011 to included improved disclosure for offsetting of offset financial assets and financial liabilities. The amendments are to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The amendments are not expected to have a significant impact on the Company’s consolidated financial statements.

iii. IFRS 9 Financial Instruments (“IFRS 9”)

IFRS 9 was issued in November 2009 and is intended to replace current IAS 39, “Financial Instruments: Recognition and Measurement”. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The amendments are not expected to have a significant impact on the Company’s consolidated financial statements.

iv. IFRS 10 Consolidated Financial Statements (“IFRS 10”)

IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27 “Consolidated and Separate Financial Statements” and SIC-12 “Consolidation—Special Purpose Entities” and is effective, with retrospective application, for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

v. IFRS 11 Joint Arrangements (“IFRS 11”)

IFRS 11 establishes principles for financial reporting by parties to a joint arrangement. IFRS 11 supersedes current IAS 31 “Interests in Joint Ventures” and SIC-13 “Jointly Controlled Entities—Non-Monetary Contributions by Venturers” and is effective, with retrospective application, for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

vi. IFRS 12 Disclosure of Interests in Other Entities (“IFRS 12”)

IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 is effective, with retrospective application, for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

vii. IFRS 13 Fair Value Measurements (“IFRS 13”)

IFRS 13 defines fair value and sets out a single IFRS framework for fair value measurements and disclosures. IFRS 13 applies to other IFRSs that require or permit measurements or disclosures based on fair values, except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013.

Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

viii. IAS 32 Financial Instruments – Presentation ("IAS 32")

In December 2011, certain amendments to IAS 32 were issued which address inconsistencies when applying the offsetting criteria outlined in this standard. These amendments clarify certain criteria required in order to offset financial assets and financial liabilities. These amendments are required to be adopted retrospectively for periods beginning January 1, 2014. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

4. EQUIPMENT

Changes to the Company's equipment balances are as follows:

	Field Equipment	Office Equipment	Vehicles	Total
	$	$	$	$
Cost				
Balance, December 31, 2011	28,680	12,918	41,118	82,716
Additions	-	-	-	-
Balance, March 31, 2012	**28,680**	**12,918**	**41,118**	**82,716**
Accumulated amortization				
Balance, December 31, 2011	22,640	4,255	6,366	33,261
Additions	1,451	986	2,148	4,585
Balance, March 31, 2012	**24,091**	**5,241**	**8,514**	**37,846**
Carrying value				
December 31, 2011	6,040	8,663	34,752	49,455
March 31, 2012	**4,589**	**7,677**	**32,604**	**44,870**

5. MINERAL PROPERTIES

Acquisition costs

As at March 31, 2012 and prior periods, the carrying values of mineral properties were comprised solely of capitalized acquisition costs for mineral rights. Changes to these carrying values are as follows:

	Gibellini	Del Rio	Hot Creek	Total
	$	$	$	$
As at December 31, 2011	1,487,089	39,683	9,171	1,535,943
Additions	132,534	-	-	132,534
As at March 31, 2012	**1,619,623**	**39,683**	**9,171**	**1,668,477**

The Company has capitalized, rather than expensed, property acquisition costs on the basis that holding title to the related properties allows the Company to explore and develop these properties in the future. Acquiring and maintaining title to mineral properties involves certain inherent risks due to difficulties in determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

Exploration and evaluation expenses

During the three months ended March 31, 2012, exploration and evaluation expenses incurred on the Company's mineral properties were as follows:

	Gibellini	Del Rio	Hot Creek	Total
	$	$	$	$
Metallurgy	123,344	-	-	123,344
Environmental permitting	101,307	-	-	101,307
Geotechnical	99,792	-	-	99,792
Engineering, procurement and construction management	72,889	-	-	72,899
General	72,353	-	-	72,353
Engineering	26,863	-	-	26,863
Feasibility	6,197	-	-	6,197
Power	2,398	-	-	2,398
Property maintenance	2,245	-	-	2,245
Water	597	-	-	597
	507,985	**-**	**-**	**507,985**

During the three months ended February 28, 2011, exploration and evaluation expenses incurred on the Company's mineral properties were as follows:

	Gibellini	Del Rio	Hot Creek	Total
	$	$	$	$
Feasibility	543,181	-	-	543,181
Water	409,135	-	-	409,135
General	115,532	-	-	115,532
Environmental permitting	91,793	-	-	91,793
Metallurgy	51,508	-	-	51,508
Drilling and trenching	35,658	-	-	35,658
Engineering	31,377	-	-	31,377
Property maintenance	20,381	-	-	20,381
Exploration	2,365	-	-	2,365
Geotechnical	2,186	-	-	2,186
Power	188	-	-	188
	1,303,304	**-**	**-**	**1,303,304**

Summary of properties

a) Gibellini Property, Nevada, U.S.

During the year ended February 28, 2007, the Company entered into a Mineral Lease Agreement to acquire 40 unpatented lode mining claims, paying US$60,000 upon the execution of the agreement. Pursuant to the terms of the agreement, the Company is required to pay a production royalty of 2.5% of the net smelter returns ("NSR") of all mineral substances produced from the claims, to a maximum of US$3,000,000, at which point the production royalty decreases to 2.0%. The Company is also required to pay US$30,000, quarterly, and such payments are credited against any future production royalties payable. As of March 31, 2012, the Company has paid a total of US$540,000 for these advance royalty payments, including US$30,000 paid during the three months ended March 31, 2012.

During the year ended February 28, 2007, the Company entered into a Mineral Lease Agreement to acquire 12 unpatented lode mining claims, paying US$9,000 upon the execution of the agreement. Pursuant to the terms of the agreement the Company is required to pay an initial production royalty payment of US$30,000 within 60 days of production from the claims and a production royalty of 3.0% of NSR of all mineral substances produced from the claims. Also, the Company must pay an escalating series of annual payments, which will be credited against any future production royalties payable. As of March 31, 2012, the Company has paid a total of US$95,000 for these advance royalty payments; remaining payments are US$24,000, annually. Further, the Company has the option to purchase these claims for a total purchase price of US$1,000,000.

During the ten months ended December 31, 2011, the Company acquired 17 unpatented lode mining claims for US$50,000 – in addition to US$70,000 in previous payments – and the issuance of 25,000 of its common shares valued at $33,750.

During the ten months ended December 31, 2011, the Company acquired an additional 183 unpatented lode claims and seven placer claims through the staking process.

During the ten months ended December 31, 2011, the Company obtained various rights to water required for production from the Gibellini Property. Consideration for these rights included a cash payment of US$295,000 and 50,000 common shares in the Company valued at $67,500. The Company is required to make annual rental payments of US$225,000, which may be adjusted for the Consumer Price Index. During the three months ended March 31, 2012, the Company paid US$103,000 of such rental payments.

b) Del Rio Property, Nevada, U.S.

During the year ended February 28, 2011, the Company acquired 120 claims through the staking process. No additional claims have been subsequently acquired.

c) Hot Creek Property, Nevada, U.S.

During the year ended February 28, 2011, the Company acquired 18 claims through the staking process. No additional claims have been subsequently acquired.

Engineering, procurement and construction management

During the ten months ended December 31, 2011, the Company entered into an agreement with an independent contractor who will manage various phases of the development of a mine on the Gibellini Property. These phases include basic and detailed engineering, asset and service procurement, and mine construction. As at March 31, 2012, the contractor has commenced the basic engineering phase.

On the commencement of the basic engineering phase, the Company paid a US$559,936 deposit, and 17 monthly installments totalling US$2,799,679 are required throughout the phase. Installments and the deposit have been recorded on the consolidated balance sheet as a deferred engineering management expense and deposit when paid or accrued, which is then recognized as an expense on a percentage-of-completion basis over the duration of the phase.

Changes to the deferred engineering management expense and deposit balance are as follows:

	Amount
	$
Balance, December 31, 2011	1,079,390
Monthly installments paid or accrued	431,691
Expense recognized for percentage-of-completion achievement	(72,889)
Balance, March 31, 2012	**1,438,192**

6. SHAREHOLDERS' EQUITY

Share capital

Authorized

Unlimited number of common voting shares with no par value.

Issued and outstanding

	Number of Common Shares	Amount
		$
Outstanding, March 1, 2011	20,267,814	6,349,922
Issued through private placements, net of share issuance costs	5,771,917	6,919,555
Issued on exercise of warrants	1,166,666	466,666
Issued on exercise of stock options	87,000	141,968
Issued for water rights (Note 5)	50,000	67,500
Issued for mineral claims (Note 5)	25,000	33,750
Issued on achievement of performance targets	75,000	78,750
Outstanding, December 31, 2011 and March 31, 2012	**27,443,397**	**14,058,111**

Private placements

On March 22, 2011, the Company completed a brokered private placement of 2,770,250 common share units at a price of $1.35 per unit for gross proceeds of $3,739,838. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one additional common share at a price of $1.95 until September 22, 2012. The full value of these units is attributed to the value of the common shares. An additional 193,918 agent's warrants were issued as part of this private placement with a fair value of $109,668. Each agent's warrant entitles the holder to purchase one common share at a price of $1.35 per common share until March 22, 2012. Transaction costs for the private placement, which include the fair value of agent's warrants, cash commissions, and legal and other fees, totalled $577,641.

On July 15, 2011, the Company completed a non-brokered private placement of 2,334,667 common share units at a price of $1.50 per unit for gross proceeds of $3,502,001. Each unit consists of one common share and one-quarter of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase an additional common share at a price of $2.00 until January 15, 2013. The value of these units has been bifurcated between common shares at a value of $1.34 per share and warrants at a value of $0.16 per one-quarter warrant. An additional 23,940 finder's warrants were issued as part of this private placement with a fair value of $8,232. Each finder's warrant entitles the holder to purchase one common share at a price of $2.00 per common share until July 15, 2012. Transaction costs for the private placement, which include the fair value of finder's warrants, cash commissions, and legal and other fees, totalled $211,516.

On August 31, 2011, the Company completed a non-brokered private placement of 667,000 common share units at a price of $1.50 per unit for gross proceeds of $1,000,500. Each unit consists of one common share and one-quarter of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase an additional common share at a price of $2.00 until February 28, 2013. The value of these units has been bifurcated between common shares at a value of $1.26 per share and warrants at a value of $0.24 per one-quarter warrant.

Performance shares

During the ten months ended December 31, 2011, the Company entered into an arrangement whereby up to 500,000 of its common shares could be issued in four tranches to an officer of the Company upon meeting various milestones for the development of the Gibellini property. During the ten months ended December 31, 2011, the first milestone was met and 75,000 of these shares valued at $78,750 were issued. The performance conditions for the issuance of the remaining shares are discussed in Note 12.

Warrants

Changes to the balance of warrants outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Fair Value
		$	$
Outstanding, March 1, 2011	1,166,666	0.40	-
Warrants exercised	(1,166,666)	0.40	-
Warrants issued as part of common share units	2,135,542	1.97	0.25
Warrants issued as agent's and finder's fees	217,858	1.42	0.54
Outstanding, December 31, 2011	2,353,400	1.92	0.28
Warrants expired	(193,918)	1.35	0.57
Outstanding, March 31, 2012	2,159,482	$1.97	0.25

The fair value of warrants included in common share units is determined as the excess in the value of the unit over the market price of the Company's common shares on the date the units are issued.

The fair value of agent's and finder's warrants issued on a stand-alone basis is determined using the Black-Scholes option pricing model.

The following warrants were outstanding and exercisable as at March 31, 2012:

Expiry date	Exercise Price	Number of Warrants Outstanding and Exercisable
	$	
July 15, 2012	2.00	23,940
September 22, 2012	1.95	1,385,125
January 15, 2013	2.00	583,667
February 28, 2013	2.00	166,750
		2,159,482

Stock options

The Company adopted an incentive stock option plan which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the requirements of the Exchange, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. Such options will be exercisable for a period of up to five years from the date of grant. Vesting terms are determined by the Board of Directors at the time of grant.

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Fair Value
		$	$
Outstanding, March 1, 2011	1,837,500	0.69	0.51
Options granted	575,000	1.47	1.09
Options exercised	(87,000)	0.96	0.67
Outstanding, December 31, 2011	2,325,500	0.88	0.64
Options granted	65,000	0.77	0.40
Options cancelled	(6,250)	1.64	1.16
Outstanding, March 31, 2012	**2,384,250**	**0.88**	**0.63**

The fair values of the stock options granted during the three months ended March 31, 2012 and February 28, 2011 have been estimated using the Black-Scholes option pricing model. The weighted average assumptions used in the pricing model for these options are as follows:

	Three Months Ended March 31, 2012	Three Months Ended February 28, 2011
Risk-free interest rate	**1.05 %**	1.91 %
Annual dividends	**-**	-
Expected stock price volatility	**86.45%**	133.02%
Expected forfeiture rate	**20.44%**	31.20%
Expected life	**2.61 years**	2.79 years

The following incentive stock options were outstanding and exercisable at March 31, 2012:

Expiry date	Exercise Price	Number of Options Outstanding	Number of Options Exercisable
	$		
February 12, 2013	1.30	138,000	138,000
December 17, 2013	0.40	25,000	25,000
January 21, 2015	0.35	887,500	887,500
April 1, 2015	0.75	40,000	40,000
August 18, 2015	0.75	50,000	50,000
November 2, 2015	0.70	275,000	275,000
December 13, 2015	1.00	60,000	60,000
December 29, 2015	1.05	75,000	75,000
December 31, 2015	1.14	50,000	50,000
February 4, 2016	1.55	50,000	50,000
February 7, 2016	1.56	100,000	100,000
March 7, 2016	1.50	25,000	25,000
March 23, 2016	1.53	300,000	300,000
April 29, 2016	1.64	68,750	68,750
July 19, 2016	1.34	100,000	50,000
August 2, 2016	1.25	50,000	25,000
August 12, 2016	1.19	25,000	12,500
February 6, 2017	0.77	65,000	40,000
		2,384,250	**2,271,750**

7. RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2012, a $19,500 (three months ended February 28, 2011 - $12,000) expense was recorded for office facilities, corporate and administrative services provided by a company jointly controlled by a director of the Company, of which $9,843 (December 31, 2011 - $12,290) is included in accounts payable and accrued liabilities.

During the three months ended March 31, 2012, a $45,000 expense (three months ended February 28, 2011 - $10,000) was recorded for consulting services provided by a company jointly controlled by a director of the Company. Included in accounts payable and accrued liabilities at March 31, 2012 is $17,215 (December 31, 2011 - $43,448) payable to this related company.

Included in prepaid expenses is $10,000 (December 31, 2011 - $10,000) advanced to the Chief Executive Officer of the Company for corporate expenses to be incurred on the Company's behalf. Included in accounts payable and accrued liabilities is a total of $2,691 (December 31, 2011 - $3,496) owing to this officer.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

8. SEGMENTED INFORMATION

The Company has one reportable operating segment, being the acquisition and exploration of mineral properties. Geographical information is as follows:

	Net Comprehensive Loss for the Three Months Ended	
	March 31, 2012	February 28, 2011
	$	$
Canada	**603,948**	614,840
United States	**618,415**	1,150,750
Total net comprehensive loss	**1,222,363**	1,765,590

		Total Assets as at
	March 31 2012	December 31 2011
	$	$
Canada	**1,966,582**	3,507,763
United States	**4,093,515**	3,986,505
Total assets	**6,060,097**	7,494,268

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at March 31, 2012, the Company's financial instruments comprise cash, amounts receivable, income tax receivable, reclamation deposit and accounts payable and accrued liabilities. With the exception of cash, all financial instruments held by the Company are measured at amortized cost. The fair values of these financial instruments approximate their carrying value due to their short-term maturities.

Financial instruments measured at fair value on the balance sheet are summarized in levels of fair value hierarchy, described in Note 3 of the Company's audited financial statements as at and for the ten months ended December 31, 2011, as follows:

	Level 1	Level 2	Level 3
	$	$	$
Cash	2,584,829	-	-

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk and interest rate risk.

Currency risk

A portion of the Company's expenses are incurred in United States dollars and financial instrument balances are held in this currency. A significant change in the currency exchange rates between the Canadian dollar relative to the United States dollar could have a negative effect on the Company's results of operations, financial position or cash flows.

The Company has not hedged its exposure to currency fluctuations and, as at March 31, 2012, the Company held $1,292,951 (December 31, 2011 - $1,638,060) in United States dollars. A prolonged $0.10 increase (decrease) in the value of the Canadian dollar compared with the United States dollar would result in a $129,295 foreign exchange loss (gain) based on United States dollar holdings as at March 31, 2012.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash. The Company limits exposure to credit risk by maintaining its cash with large financial institutions. The Company does not have cash that is invested in asset backed commercial paper.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures there is sufficient capital in order to meet short term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. The Company believes that these sources will be sufficient to cover the likely short term cash requirements and further funding will be required to meet long-term requirements.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Company's cash is currently held in short-term interest bearing accounts which pay relatively low rates of interest, the Company considers the interest rate risk to be limited.

10. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of resource properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent upon external financings to fund activities. In order to carry out planned exploration and pay for administrative costs, the Company will spend its existing working capital and will attempt to raise additional funds as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the three months ended March 31, 2012. The Company is not subject to externally imposed capital requirements.

11. LOSS PER SHARE

The numerators and denominators of basic and diluted loss per share for the three months ended March 31, 2012 and three months ended February 28, 2011 are as follows:

	Three Months Ended March 31, 2012	Three Months Ended February 28, 2011
Net loss (numerator)	**$(1,222,363)**	$(1,765,591)
Basic and diluted weighted average number of common shares outstanding (denominator)	**27,443,397**	20,106,499
Basic and diluted loss per share	**$(0.04)**	$(0.09)

The Company incurred net losses for all periods reported, so no dilutive impact of in-the-money stock options and warrants has been included in the calculation of diluted weighted average number of common shares outstanding.

12. COMMITMENTS AND CONTINGENCIES

The Company is committed to the following expenditures:

Nature of payment	**Remainder of 2012**	**2013**	**2014**	**2015**	**2016**
Engineering management[1]	US$1,359,846	US$453,282	-	-	-
Mineral rights[2]	US$114,000	US$144,000	US$144,000	US$144,000	US$144,000
Water rights[3]	US$122,000	US$225,000	US$225,000	US$225,000	US$225,000
Office lease	Cdn$81,702	-	-	-	-

1. As described in Note 5, the Company has commenced a basic engineering phase under a mine engineering, procurement and construction management agreement. The Company is not committed to undertaking further phases under the agreement.
2. As described in Note 5, the Company is making NSR prepayments in order to acquire and maintain mineral rights to its properties. To maintain certain of its properties in good standing, the Company is required to continue making these payments.
3. As described in Note 5, the Company is making annual rental payments to maintain water rights for its properties.

As discussed in Note 6, 425,000 of the Company's shares are issuable upon meeting various milestones for the development of the Gibellini property. Although the timing and number of shares that will be issued under this arrangement is unknown, the issuance of these shares is contingent on the following events:

Contingent Event	**Number of Shares Issuable**
Project permitting	75,000
Design and construction of mine leach pad	100,000
Economic production	250,000
	425,000

As the events that would result in the issuance of these shares has not occurred, no provision for their payment has been recorded.

13. EVENTS AFTER THE REPORTING PERIOD

In April 2012, the Company entered into an employment agreement with its Vice President, Environmental. Pursuant to the terms of the agreement, 100,000 stock options - vesting over one year and expiring five years from the date of grant - were granted with an exercise price of $0.70, 100,000 of the Company's common shares were issued as a bonus upon signing the agreement, and 300,000 common shares are issuable upon meeting certain milestones regarding the environmental permitting and development of the Gibellini property.

In May 2012, the Company's Board of Directors approved the issuance of up to 2,600,000 common shares in the Company (the "Compensation Shares") to the Company's Chief Executive Officer and one of its directors. The Compensation Shares are issuable when certain mine and business development milestones are met, subject to limitations that no more than 25% of the aggregate Compensation Shares may be issued in any single year, and that certain share-price targets are met. Approvals for the Compensation Shares by the Corporation's Shareholders and the Exchange are pending.